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Reconsidering the international trading system

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Security: Creating a Safer World

Reconsidering the International Trading System

Summary

How can the international trading system be brought back onto its past successful track? By making the actual levels of liberalization binding and anchoring non-discrimination everywhere in the system or by striving for a low level of trade barriers? How can the system be strengthened against emerging threats of protectionism?

Do we need a pause in today's liberalization talks and instead concentrate on agreeing on formulas for future liberalization and – even more important – on simple formulas for exceptions from WTO principles? What is the right balance between regionalism and multilateralism? Do reforms require compensation of losers inside the system or outside?

What are the problems that businesses in the current international trading system and how can these problems be alleviated within the existing institutional system?



Proposed Solutions

Expert Opinion

The International Trading System is challenged by three interrelated developments: increasing heterogeneity of its more than 150 members; conflicting targets between non-discrimination and distributional fairness; and the inability to conclude agreements. Answers to these challenges should focus on regaining the reputation of the International Trading System as the only global regulatory order which defends non-discrimination and less powerful member states against the pressure of vested interest groups and powerful members.

- Special treatment of countries and sectors should be deleted and be replaced by subsidies and transfers.
- The single undertaking approach should be replaced by agreements on core issues that facilitate market access.
- The mushrooming of regional trade agreements should be stopped by leaving the customs union option as the only exception to MFN treatment. In addition, any preferential agreement should be automatically linked to multilateral concessions.



- The dispute settlement mechanism should be sharpened by introducing the option of cash compensation to aggrieved member states where compliance with panel decisions is found unjustifiably delayed.
- Contingent protection devices such as anti-dumping measures should be restricted by committing countries to a national pre-anti-dumping cost-benefit-analysis in which consumer income losses and losses of competitiveness of downstream processing industries are adequately taken into account.
- The International Trade System should allow countries representing a sizable part of world trade to accelerate and conclude trade negotiations without demanding concessions from each member.

Strategy Perspectives

Reconsidering the International Trading System

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It is obviously desirable to bring tariffs and other trade barriers down AND to bind tariffs at the new low levels or their actual levels, rather than having much higher bindings. But the only way that can be done is in the context of multilateral trade negotiations. So the question being asked is really how to get the Doha Round back on track. Clearly, that is a matter for agreement among the major trading countries, and it would appear that agreement was fairly close at the end of July. An urgent task is to bring the Doha Round to a conclusion, with agreements on NAMA and agriculture and, hopefully, on services.

The agricultural agreement is critical because it is probably the only way to get the American farm bill reconsidered, and that is crucial for international trade. But, in addition, it would be highly desirable to have countries forswear the use of export quotas and bans for food products, especially in the current situation. Cotton subsidies would surely have to be addressed, and the ceilings on subsidy support should be lowered, recognizing that the current year is one of very high agricultural prices.

In the near term, reaching agreement on Doha will be a political decision. In the longer term, more education of policy makers and the public is clearly called for. It is seldom recognized that most protective barriers benefit special interests, and do little for the groups that those advocating protection wish to support. The evidence is strong that job losses in the aggregate are much more related to technical change than to trade. And even when trade does account for some job losses at the microeconomic level, there are offsets insofar as companies that would otherwise lose to foreign competition are enabled to obtain their inputs at the same prices as their foreign competitors.

Replacing the single undertaking with individual agreements on core issues is not a solution. Indeed, as can be seen by the IT agreement, removal of an industry or group of activities from concern with the outcome of trade negotiations reduces the political pressures on negotiators to come to a successful conclusion. The IT industry, which was an important advocate of a good outcome to the Uruguay Round has been almost silent in the current round.

It is not clear that customs union is to be preferred to a free trade agreement. The NAFTA does not appear to be more protectionist than customs unions. A solution might be to require all free trade agreements to have a uniform percentage value added rule of origin, while also



having a clause enabling any other country willing to accept the terms of the agreement to join.

Safeguards measures could be amended to heighten the de minimis provisions, and to provide for similar procedures across countries for tests of dumping and subsidies.

But over the longer term, perhaps the most important thing that can be done is to increase the flexibility of domestic labor markets, especially with respect to mobility of labor and training. Whether job losses are “caused” by trade, by technical change, by shifts in taste, or other factors, economic growth insures that an increasing fraction of the labor force will need more than one skill set during the working years. Finding mechanisms to encourage workers with few or the wrong skills to enter into productive training programs is a challenge that is essential for economic growth. At the same time, additional flexibility would greatly reduce the dislocations and problems now associated with job loss, however it is caused.

Reconsidering the International Trading System

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Proposed Diagnostic

It consists in a few observations on domestic issues key for the world trading system because they determine the strength of the incentives in favor to trade liberalization.

- Trade negotiators have only recently started to tackle liberalization issues (agriculture) protected by constitutional rules in key democratic trading countries.
- The last twenty years have witnessed increasingly thinner majorities supporting democratic governments, making their trade policy less resistant to tiny pressure groups and slowing down trade negotiations.
- Preferential trade agreement (which share the above problems with the multilateral regime) have benefitted from a priori positive political motives during the last decade. But the two last years have revealed their political costs (particularly for bilateral trade agreements between relatively large countries).

Proposed Solutions

The aim is to improve the efficiency of the WTO (compared to preferential trade agreements) by retooling it in order to adjust it to the constraints listed in the proposed diagnostic.

The following six sources of reform for the WTO are self-reinforcing, a feature allowing to use each of them more gently, a favorable feature for achieving compromises:

- focusing on the core business of market access in goods,
- evaluating the true value of binding tariffs,
- relying, as much as possible, on formulas for negotiating market access in goods, and preferring formulas cutting high tariffs to those favoring “early harvests”.
- relying on plurilaterals based on “coalitions of the willing” for negotiating market access in services,
- re-interpreting the Single Undertaking notion in order to favor positive discrimination,
- and mellowing the bilaterals by more WTO-friendly rules of origin.



These six reforms should ultimately contribute to deliver shorter Rounds, hence increasing support to the WTO and reducing the attraction for bilaterals (or making the current and future bilaterals more friendly to the multilateral trade regime).

The success of trade liberalisation ultimately depends on domestic support. Such a support cannot be ensured by general arguments (average tariff cuts, gains from trade liberalization, etc.). Rather, it will be nurtured by the best available concrete information on the highest domestic barriers – peak tariffs, largest subsidies, most inefficient regulations, etc. Such a focus would dissipate a frequent misunderstanding in the public opinion – protection is in the “public interest” whereas freer trade favors narrow-minded “private interests”. It would reveal that protection is keeping the status quo situation and favoring the most powerful groups in place, at the detriment of the infant economic and social forces.